ABSTRACT

A method and system of calculating a net present value of an average spot basket option is provided. The method includes calculating a first and second moment of a sum of spot values of all underlyings of a basket and applying a Black-Scholes formalism to the first and second moments to determine the net present value of an average spot basket option. The method further includes calculating a modified forward spot, a modified strike value, and first and second modified normal distribution functions for application in the Black-Scholes formalism. A system in accordance with the invention includes a memory that stores data that is exercised in connection with determining the net present value, a processor that executes code to determine the net present value in accordance with the a first and second moment of the sum of spot values of all underlyings of a basket and the application of a Black-Scholes formalism to the first and second moments to determine the net present value of the average spot basket option.